

“Compensation Structure, CEO Overconfidence and Loan Contract”

(in English)

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Venue: WYL110, Dorothy Y. L. Wong Building

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Abstract :

It is important for the bank to take CEO's characteristics into account when assessing the corresponding firm's risks. This thesis attempts to study the relationship between CEO compensation, CEO overconfidence and cost of borrowing. CEO with more option compensation would have incentive to engage in risky investment, which intensifies the credit risk to the bank (lender). I hypothesize that banks would impose a higher interest rate, more and tighter covenants to CEO with more option compensation in order to restrain their opportunistic behavior. I also hypothesize that option compensation and CEO overconfidence interact to accentuate the usage of covenant.

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